

HOUSE BILL REPORT

HB 1815

As Reported by House Committee On:
Economic Development, Agriculture & Trade
Appropriations

Title: An act relating to a small business incubator competitive grant program.

Brief Description: Modifying the small business incubator program.

Sponsors: Representatives Wallace, Skinner, Pettigrew, Rodne, Kilmer, Ahern, Blake, McCoy, Anderson, Walsh, Lovick, Hudgins, Appleton, Strow, Murray, B. Sullivan, Simpson, Kessler, Williams, O'Brien, Conway, Morris, Linville, Lantz and Moeller.

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 2/16/05, 2/28/05 [DPS];
Appropriations: 3/5/05 [DP2S(w/o sub EDAT)].

Brief Summary of Second Substitute Bill

- Creates a competitive grant program for small business incubators and entrepreneurial support programs.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 19 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Skinner, Assistant Ranking Minority Member; Blake, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kenney, Kilmer, McCoy, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

Minority Report: Do not pass. Signed by 4 members: Representatives Kristiansen, Ranking Minority Member; Buri, Condotta and Kretz.

Staff: Tracey Taylor (786-7196).

Background:

Business incubation is a dynamic process of business enterprise development. Incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services. Many business incubators also offer entrepreneurial firms shared office services, access to equipment, flexible leases, and expandable space.

An incubation program's main goal is to produce businesses that are financially viable and freestanding when they leave the incubator, usually after two or three years. Approximately 30 percent of incubator clients graduate each year.

In 2004, the Legislature passed the Washington Small Business Incubator and Assistance Act which created the Small Business Incubator (SBI) program which is administered by the Department of Community, Trade and Economic Development (DCTED).

The DCTED may award grants of up to \$3 million to qualified SBI organizations for the construction and equipment needs of the SBI facility. In order to receive the grant, the qualified SBI must show that it has the resources to complete the project in a timely manner and that the state grant is not the sole source of funds. In addition to the facilities funds, the DCTED may provide technical assistance, up to a maximum of \$125,000 per year, per facility, to a qualified SBI for support services and the operation of the SBI facilities.

A SBI is defined as a physical location that offers:

- space for start-up and expanding firms with viable products;
- the shared use of equipment and work areas;
- daily management support services essential to high-quality commercial operations;
- and
- technical assistance.

To qualify for money under the SBI Program, a SBI organization must be a nonprofit 501(c)(3) organization focused on developing small businesses in an economically distressed or disadvantaged area. It must also have a sound business plan and meet other standards developed by the DCTED, in conjunction with the Washington Association of Small Business Incubators.

A SBI Account is created in the custody of the State Treasurer. The DCTED may accept and receive grants, gifts, and pledges for the support of the SBI program.

Summary of Substitute Bill:

A competitive grant program is established for small business incubators and entrepreneurial support programs providing business-related training and services as well as technical assistance to start-up or emerging businesses. Entrepreneurial support programs offer start-up or emerging businesses business-related training and services as well as technical assistance. An emerging business means a business that is engaged in activities related to the development of initial product or service offerings, a business which is less than three years old and during the previous fiscal year had gross revenues of no more than \$2 million or a business that is in a growth mode, expanding its operations or its market. A start-up business means a business that is involved in activities related to the initial product or service offerings which is less than three years old and during the previous fiscal year had gross revenues of no more than \$2 million and has fewer than 20 employees. The requirement that a qualified SBI be focused on developing businesses in an economically distressed area is removed.

The grants are awarded to 501(c)(3) or 501(c)(6) nonprofit organizations or governmental organizations, including port districts. To the extent possible, grants shall be awarded among zones equally. The zones, by counties are:

- Northwest Zone: Clallum, Jefferson, Whatcom, Skagit, San Juan and Island counties;
- Pacific Mountain Zone: Thurston, Mason, Grays Harbor, Lewis and Pacific counties;
- Southwest Zone: Wahkiakum, Cowlitz, Clark and Skamania counties;
- Northeast Zone: Adams, Chelan, Douglas, Whitman, Grant, Okanogan, Ferry, Stevens, Pend Oreille, Lincoln, and Spokane counties; and
- Southeast Zone: Benton, Franklin, Walla Walla, Columbia, Garfield, Asotin, Whitman, Kittitas, Skamania and Yakima counties.
- King Zone: King County.
- Pierce Zone: Pierce County.
- Snohomish Zone: Snohomish County.

Administration and overhead expenses are limited to 10 percent of the grant award. The grants are awarded for a two-year period and previous grantees are not prohibited for reapplying for new grants.

The DCTED will administer the grant program and shall establish an application process. At a minimum, the grant applications must include a work plan that describes the types of businesses to be targeted for assistance, the types of training, services and technical assistance to be offered and the performance measures to be applied. One year after receiving a grant, the grant recipient must submit a progress report to DCTED.

On a biennial basis, beginning December 1, 2007, the DCTED must submit a report to the appropriate committees of the Legislature. The report should include, but is not limited to, the number of businesses served by industry, the types of services provided, the number of jobs retained as the result of the grant program, the number of jobs created as the result of the grant program and the names of the grant recipients and the amounts of the grants.

Substitute Bill Compared to Original Bill:

The substitute clarifies that competitive grants are available to qualified small business incubators and entrepreneurial support programs. The substitute provides new examples of the types of technical assistance given by entrepreneurial support programs: operational development, business development and financing. A business must be in a growth mode to be an emerging business. A small business incubator may also be a 501(c)(6) organization. The substitute clarifies that port districts are entities that may qualify for a competitive grant. The \$200,000 per year, per region cap is eliminated. Instead, to the extent possible, the grants shall be allocated equally among zones. Zones replace regions, and two new zones are added. The duplicate reference to Adams County in the Southeast Zone is eliminated and the previous oversight of Yakima County is corrected.

The DCTED is authorized to contract with the Community Economic Revitalization Board to administer the grant program. The first biennial report is due in 2007 instead of 2008.

Appropriation: The sum of \$1.2 million for Fiscal Year 06 and \$1.2 million for Fiscal Year 07.

Fiscal Note: Requested on February 10, 2005.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: (In support) It is important to invest in programs that drive money directly to businesses. Small Business Incubators as facilities are productive; however, with a tight budget, we need to focus on providing services directly to businesses which is why, in addition to SBIs, entrepreneurial support programs are important. In addition, I-200 and the business environment have created a need for entrepreneurial support in many communities. At the Tacoma SBI, four out of five businesses succeed. This bill creates opportunities and is a natural follow-up to last year's SBI legislation.

In some communities, a physical SBI just does not make sense. This bill would allow those communities, which may include many of our rural communities, to grow jobs and grow the local tax base through entrepreneurial support. In addition, this could help our Procurement Technical Assistance Center, which is a valuable resource for businesses looking to compete for government contracts.

(In support with concerns) A definition of a "startup business" would be helpful as well as equalizing the allocations to counties. In a year where there are limited state resources, this may not be a priority. We may want to focus more on retaining our existing businesses, instead of focusing our resources on businesses younger than three years. This is not the only state program that assists small businesses -- maybe we should look at increasing the funding to small business development centers.

Testimony Against: The definition of a SBI could include a shared office situation which is why SBIs should be nonprofits. There should be a graduation requirement and a management program within the SBI. There is concern regarding the grant allocations: the Puget Sound region has 60 percent of the state's population, but only gets \$150,000 per year. There needs to be a better allocation method.

This bill changes the definition of a SBI and that may not be the right direction. We had hoped to tighten the definition, so real SBI programs received money.

Persons Testifying: (In support) Eddie Rye, Jr., Pacific Northwest National Black Coalition; Lincoln Ferris, Coalition for Investing in Washington Jobs; Diana Dollar and John Tamble, Snohomish County Economic Development Council; Michael Cade, Thurston County Economic Development Council; and Grace Kendall,

(In support with concerns) Tim Strege, William Factory Small Business Incubator; Scott Taylor, Washington Public Ports Association; Teresa Lemmons, Metropolitan Development Council of Tacoma; and Ron Newbry, Washington Economic Development Association.

(Opposed) John Bankston, Puyallup Small Business Incubator; and Jamie Beletz, Washington Association of Small Business Incubators;

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Economic Development, Agriculture & Trade. Signed by 17 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Clements, Cody, Conway, Dunshee, Grant, Haigh, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, Miloscia, Schual-Berke and Walsh.

Minority Report: Do no pass. Signed by 11 members: Representatives Alexander, Ranking Minority Member; Anderson; McDonald; Armstrong; Bailey; Buri; Darneille; Hinkle; Pearson; Priest and Talcott.

Staff: Nona Snell (786-7153).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Economic Development, Agriculture & Trade:

The second substitute bill strikes the appropriation from the bill and adds a null and void clause.

Appropriation: None.

Fiscal Note: Available on original bill.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed. However, the bill is null and void if not funded in the budget.

Testimony For: None.

Testimony Against: None.

Persons Testifying: None.

Persons Signed In To Testify But Not Testifying: None.